

ENERGY COST ASSISTANCE PROGRAMS

A Report Prepared for the

Legislative Finance Committee

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INTRODUCTION

The purpose of this report is to provide the Legislative Finance Committee (LFC) with information regarding energy assistance available to low-income families, including the federal Low Income Energy Assistance Program (LIEAP) grant and Universal System Benefits (USB) such as discounted utility rates. The report summarizes direct benefit payments, weatherization, and USB benefits.

LIEAP BENEFITS

LIEAP benefit payments cover part of the household's total heating costs for the winter, and have historically ranged from under \$100 to nearly \$2,000, depending upon need and funds available.

Funds presently available for benefits for the 2006 heating season are:

- Federal funding of \$9.3 million from the LIEAP grant provides \$6.8 million for benefits
- General fund of \$0.2 million
- Additional energy conservation / assistance funds that become available if the federal grant is below \$11 million

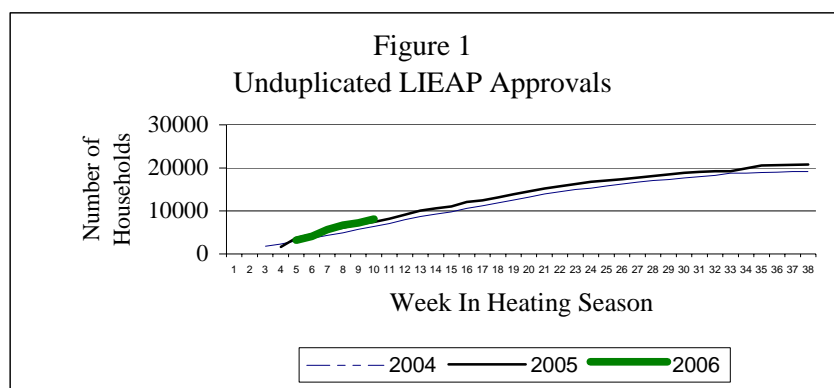
(There is greater detail for all sources of funding for the LIEAP program on the following page.)

In the 2005 heating season, benefits totaled \$9.8 million and served 20,463 households at an average benefit of \$477. If the number of households remained constant at the 2005 level, the LIEAP grant and general fund mentioned above would total \$7.0 million and an average benefit of \$342 for the 2006 heating season.

However, the Intergovernmental Human Services Bureau (IHSB), which manages the LIEAP Program, predicts a substantial increase in requests for LIEAP assistance. As of November 30, 2005, which is early in the application season, there are 8,093 approved requests, or nearly 10 percent more than at the same time last year. Given the amount of early inquiries, IHSB staff members are concerned that the final number of applications may reflect an increase greater than 10 percent. The following chart shows the potential increase.

Every eligible household will receive benefit support. Consequentially, the more people that qualify for benefits, the smaller the benefits per recipient become. The greater the increase in heating costs, the less the benefit helps the family pay the utility bill.

For example, should applications increase to 23,000 households and heating costs remain the same, the \$7.0 million presently available for 2006 benefits would equate to a benefit of \$304 per household, or \$173 dollars less than the \$477 average benefit received in 2005. (Should an additional \$2 million in federal funds and \$1.2 million in TANF dollars come to the program, it would increase the average benefit projection from \$304 to \$443 for 23,000 households.)



However, last year's average benefit of \$477 covered approximately 50 percent of the average heating costs of recipient households. In order to maintain the same level of benefit support for the 2006 heating season as LIEAP provided in 2005, the average LIEAP benefit (at today's energy prices)¹ would have to be \$605 due to increases in heating costs. Using the \$605 benefit amount, if 23,000 households apply for LIEAP in 2006 the amount of benefit funding over the existing \$7.0 million that would be necessary to cover an average of 50 percent of the heating costs would be approximately \$6.9 million.

LIEAP Program Detail

The following figure shows the sources of funds for all components of the Low-Income Energy Assistance Program. The top three rows summarize projected costs and benefit payments of the total \$10.4 million available for FY 2006. The balance of the figure provides revenue detail. In the FY 2006 "expended to date column", a zero (0) generally indicates that it is too early in the heating season to expend funds. See Figure 3 for expenditure details.

Figure 2 Low-Income Energy Assistance Program						
	FY 2005		FY 2006		FY 2006	
	Legislative Approp.	FY2005 Actual	Legislative Approp.	Available to date	Expended to date	FY 2007 Legislative Approp.
Summary LIEAP Admin. & Benefits	\$11,525,836	\$14,670,415	\$12,107,592	\$10,375,192		\$12,313,891
Non-benefit projected costs to date		4,904,337		3,596,395	476,074	
Projected for benefits LIEAP		9,766,078		6,778,797	2,921,195	
LIEAP Program Funding Detail						
Funding for LIEAP Program						
Federal LIEAP Grant	\$11,525,836	\$12,781,838	\$11,901,294	\$9,268,154	\$3,397,269	\$11,901,294
General Fund - HB 2 - \$500,000	0	0	206,298	206,298	0	412,597
General Fund - HB332 - Supplement	0	695,361	0	0	0	0
Leveraging Incentive Award	0	122,943	0	153,353	153,353	0
TANF	0	500,000	0	0	0	0
Carry over for next yr.'s early propane purchase	0	570,273	0	747,387	0	0
Subtotal for LIEAP Program	\$11,525,836	\$14,670,415	\$12,107,592	\$10,375,192	\$3,550,622	\$12,313,891
Funding for LIEAP Tribal Benefits						
Federal LIEAP Grant - Tribal 17.4806%	\$2,056,342	\$2,056,342	\$2,123,328	\$1,964,000	- NA -	\$2,123,328
General Fund - Tribal 17.4806%	0	0	87,403	87,403	0	87,403
General Fund - Tribal 17.4806% of HB 332	0	157,894	0	0	0	0
Subtotal Tribal Benefits	\$2,056,342	\$2,214,236	\$2,210,731	\$2,051,403	\$0	\$2,210,731
Other support from Legislative Approp.						
General Fund - HB 2 - Warm Homes MT		0	\$206,299	\$206,299	\$59,772	0
GF - HB 332 - Energy Share Contract	0	50,000	0	0	0	0
Energy Ombudsman	0	0	300,000	300,000	5,283	300,000
Energy Conservation / Assistance Funds - if federal grant is below \$11,035,480	0	0	725,000	725,000	0	725,000
Federal Weatherization DOE	2,590,730	2,541,803	2,569,404	2,569,404	987,772	2,568,309
MPC/NW Energy Free Weatherization	1,168,000	1,200,913	1,168,000	1,168,000	510,882	1,168,000
Universal System Benefits / Bonneville Pwr	743,789	409,915	523,932	523,932	990	529,115
Subtotal Other	\$4,502,519	\$4,202,631	\$5,492,635	\$5,492,635	\$1,564,699	\$5,290,424
Total LIEAP, Tribal Support, Other	\$18,084,697	\$21,087,282	\$19,810,958	\$17,919,230	\$5,115,321	\$19,815,046

The present LIEAP grant of \$9.3 million represents the state's current allotment of the continuing federal appropriation for energy assistance grants that is still under discussion at the federal level. IHSB staff members are optimistic that Montana will receive an additional amount (as stated earlier, \$2 million is currently being discussed). If Congress approves the appropriation before the December LFC meeting, an update reflecting this action will be provided.

¹ Assumption: Base heating fuel prices: \$12.32/DKT natural gas; \$.0813/KWH electricity; \$1.71/gallon propane; \$2.92/gallon fuel oil; \$90/cord of wood; and \$65/ton of coal.

The figure at the right shows the actual and projected expenditures for the LIEAP Program.

The line item Emergency is for the LIEAP emergency benefit component (37.70.901, ARM) “when circumstances present a serious, immediate threat to the health and safety of the household.” Payments are made from the federal LIEAP Grant funds, which requires program staff to “set aside a reasonable amount” for emergencies. About \$350,000 is reserved for emergencies in FY 2006.

The expenditures are primarily delivered via department contracts with ten Human Resource Development Councils (HRDCs), one tribe, and one Area Agency on Aging, which administer the LIEAP and Weatherization programs.

Figure 3 LIEAP Expenditures		
	2005	Projected 2006
Revenue	\$14,670,415	\$11,575,192
Projected Expenditures		
Heating Assistance Benefits*	\$9,766,078	\$6,778,797
Emergency	557,306	355,200
Weatherization Assistance Ben	1,916,457	1,390,223
State & Local Admin. & Plann	1,133,751	838,128
Client Education and Outreach	549,436	549,436
Carryover to next program year	<u>747,387</u>	<u>463,408</u>
	\$14,670,415	\$10,375,192
* This amount may change with congressional action.		
** \$500,000 for FY 2005 is included in heating/weatherization figures		
See Figure 1 for state and federal Tribal support.		

Who is Eligible?

Applicants must have an income level at or below 150 percent of the 2005 federal poverty level, or about \$19,200 for a family of two. All eligible LIEAP applicants receive benefit payments, which in most cases are paid directly to utility companies and fuel vendors. The amount of benefit assistance is calculated based upon income, fuel type, fuel costs, local climate, type of dwelling, and size of dwelling. Both homeowners and renters can apply.

The 2005 Legislature approved \$600,000 over the biennium for Energy Ombudsman work throughout the state to educate Montanans about energy assistance, and help those interested through the application process. This amount is shown in Figure 2, but not Figure 3 because funding is disbursed evenly between and directly to the ten HRDCs for energy and weatherization education and outreach contract work in their regions.

UNIVERSAL SYSTEM BENEFITS

The legislature via statute has established universal system benefit programs (USB or USBP). Statute defines USB as public purpose programs for energy conservation, low-income customer weatherization, renewable resource projects and applications, research and development programs related to energy conservation and renewables, market transformation designed to encourage competitive markets for public purpose programs, and low-income energy assistance. USB is funded by a charge on consumer utility bills.²

Programs and utility bill discounts supported by USB are an additional avenue of assistance for low-income families to meet rising energy costs. Families that are eligible for the federal LIEAP grant are also eligible for discounts on their utility bills. Recent actions taken by the Public Service Commission (PSC) related to USB are outlined below.

² Statute currently provides that the annual funding requirement for a natural gas utility for low-income weatherization and low-income energy bill assistance is 0.42 percent of a natural gas utility’s annual revenue. The electric USB program funding level is 2.4 percent of each utility’s annual retail sales revenue in Montana for the calendar year 1995 and 17 percent of that amount must be used for low-income assistance.

NorthWestern Energy

On October 31, 2005 the Public Service Commission (PSC) issued an interim order regarding NorthWestern Energy's USB, their usage, and low-income discounts. Among the actions included in this order are:

- Electric low-income discounts are increased from 15 to 25 percent for the period from November 1, 2005 through April 30, 2006 at which time the electric discount reverts to 15 percent³
- Natural gas low-income discounts are increased from 15 to 30 percent for the period from November 1, 2005 through April 30, 2006 at which time the natural gas discount terminates⁴
- If the PSC has not issued a final order by November 1, 2006 the electric discount will increase from 15 to 25 percent and the natural gas rate discount of 30 percent will be reinstated
- NorthWestern Energy shall cease its practice of recovering low-income customer bill write-off costs from USB funds

Additionally, this order specifies usage of certain USB funds, allocates funds among programs as illustrated in Figure 4 below, and specifies that NorthWestern Energy is authorized to use surplus electric USB revenues to cover gas USB revenue deficits. Per Figure 4, \$6 million or 52 percent of anticipated USB revenue is allocated to low-income assistance including bill discounts, weatherization, and programs operated by Energy Share of Montana. Statute provides that utilities and large customers of utilities must receive credit toward their annual funding requirements for internal programs or activities that qualify as USBP. This is illustrated in Figure 4 by the \$3.1 million of electric USB related to large consumers.

Figure 4 NorthWestern Energy 2006 Electric and Natural Gas USB allocations Per PSC order dated October 31, 2005 - effective November 1, 2005				
Program	Electric USB	Percent	Natural Gas USB	Percent
Conservation	\$1,239,352	14%	\$327,000	11%
Market transformation	112,036	1%	na	0%
Renewables	651,094	7%	na	0%
Research and Development	89,261	1%	na	0%
Low Income:		0%		0%
Bill Discounts	1,853,584	21%	1,945,800	68%
Energy Share	575,000	7%	-	0%
Free Weatherization	962,843	11%	585,000	20%
Other	113,850	1%	16,572	1%
Large Customer	3,126,527	36%	na	0%
Total	<u>\$8,723,547</u>	<u>100%</u>	<u>\$2,874,372</u>	<u>100%</u>
Projected USB Revenue	<u>9,367,246</u>		<u>2,278,585</u>	11,645,831
Surplus(Deficit)	<u>\$643,699</u>		<u>(\$595,787)</u>	

For the upcoming heating season, NorthWestern Energy has announced it will provide \$550,000 per year of non-USB grant funds to assist low-income families above the income levels used to determine eligibility for federal LIEAP grant funds administered by Department of Public Health and Human Services (DPHHS). Families between 151 and 184 percent of the federal poverty level are eligible to receive a credit of \$250 for the heating season. These funds are allocated on a first come first served basis until the \$550,000 is expended.

³ It is estimated that on average this equates to \$160 per year or \$13 per month.

⁴ It is estimated that on average this equates to \$244 for the six month period or \$41 per month.

Montana-Dakota Utilities and Energy West of Montana

In addition to NorthWestern Energy, two other Montana utility companies (Montana-Dakota Utilities (MDU) and Energy West), are also required to comply with the statute regarding USB. Both companies provide discounts to low-income households (those eligible for the DPHHS LIEAP program) on a sliding fee schedule basis. Figure 5 summarizes low-income discounts by utility company. MDU typically has electric USB revenue that exceeds the amount needed to provide discounts. In past years, this excess has been provided to DPHHS to support low-income energy assistance programs operated by the department. However, this season MDU may use excess electric USB to offset shortages in their natural gas USB programs.

Figure 5 USB - Discounts for LIEAP Eligible Households				
Company	Natural Gas		Electricity	
	Under 65 Age Group	Over 65 Age Group	Under 65 Age Group	Over 65 Age Group
NorthWestern Energy				
November - April	30%	30%	25%	25%
May - October	0%	0%	15%	15%
Montana-Dakota Utilities	5-20%	10-25%	5-25%	10-30%
Energy West Montana	na	na	reduced rate applies	

WEATHERIZATION

The weatherization program assists the state's LIEAP program by reducing energy costs of recipient households, and contributing to a more 'long-term' solution to rising energy costs⁵. According to IHSB, energy cost reduction is about 21 percent due to weatherization assistance.

All LIEAP applicants are eligible to receive weatherization assistance. Due to funding constraints, the program weatherizes only 8 – 10 percent of each year's LIEAP households. Homes of the elderly and disabled populations using the most energy receive the highest priority. Priority is then given to other LIEAP households using the most energy. Weatherization measures are subjected to a cost test to ensure \$1.80 worth of energy savings for every dollar expended. Measures usually include heating system tune-ups, air infiltration reduction and attic, wall and floor insulation.

The Warm Homes Montana Program, a partnership of the Montana Office of Community Service, the Montana Conservation Corp, HRDCs, and DPHHS, targeted 500 homes on the LIEAP weatherization priority list for low/no cost weatherization assistance with such items as window wraps, water heater blankets, low watt light bulbs, and storm window installation. As reflected in the previous Figure 2, the project was funded with \$206,299 of general fund and donations from businesses and utilities, with assistance from the Office of Community Service and the Conservation Corps.

If homeowners do not qualify for LIEAP because they earn more than 150 percent of poverty, they may be eligible for help from Energy Share of Montana, a non-profit group, which offers help to those not qualifying for other programs. The amount this group can provide depends upon contributions it receives. Last year they served 2,400 families at an average of \$320. As shown in Figure 2, the department subcontracted with Energy Share to provide \$50,000 of support in 2005 for families that did not qualify for LIEAP benefits.

SUMMARY

In summary, while federal funding for the LIEAP grant is currently less than in previous years, there is a possibility that Congress may increase funding for this grant. Additionally, utility discounts supported

⁵ The weatherization program sometimes serves this population multiple times because the families move and qualify for weatherization in the new dwelling.

by USB funds have been increased for the 2005 – 2006 home heating season. The adequacy of funding available to assist low-income families in meeting their home heating needs will not be clear until the severity of the winter and final program funding amounts are available.

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